Edited Transcript

GE Aerospace at Barclays Industrial Select Conference

GE Aerospace

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David Strauss: All right. Good morning, everyone. We're pleased to kick off the second day of the Barclays Select Industrial Conference with Larry Culp, Chairman and CEO of GE Aerospace. Larry, thanks for joining us today. And I'll turn it over to you for some opening remarks, and then we'll get into the Q&A session.

Larry Culp: Perfect. David, thank you. It's good to be back in Miami. I think this is the first time you and I are doing this together on stage. I won't ask why you didn't think we would have this sort of attendance for GE, but here we are, so let's do it. Good morning, everyone. I do appreciate you getting up early to be with us. Thrilled to be here, really representing 53,000 people at GE Aerospace.

We talk a lot about our purpose. I think I'd be remiss if I didn't start there. We invent the future of flight. We lift people up, and we bring them home safely. Those are words that ring true to us, particularly in light of the industry's focus on safety over the last 12 months or so. And that's really where everything starts for us. I don't know how many people are new to the story. But when you think about GE Aerospace, we really want you to think about an installed base of commercial and military engines, 70,000 large the world over, a business with $35 billion of revenue, 70% of that in the aftermarket. So those 70,000 engines we are supporting in some form or fashion through decades-long life cycles which really gives us an opportunity to stay very close to our customers.

We operate in two segments, what we call CES, Commercial Engines & Services, and DPT, Defense & Propulsion Technologies. CES, clearly the global leader in commercial aviation engines and DPT very much in a similar position on the defense and the military side, both rotary and combat. Here we are mid-February, coming off a monumental 2024 for GE Aerospace. As you know, we became a public company back on the second of April. We had a whole host of one-offs through the course of the year, always good fun. In particular, CFM, our joint venture with Safran, celebrated its 50th anniversary, probably the most successful transatlantic joint venture in history. We were operating in a robust demand environment, that's probably an understatement. We saw orders up 38% last year in Commercial Services, speaking to the strength with our airline customers, our orders were up 30%.

We were able to execute in the face of that demand pretty well, enabling us to, in turn, drive operating profit growth of $1.7 billion last year. Cash was up $1.3 billion and that really then positioned us to return over $6 billion of cash to our shareholders. So from the launch, some of the other hallmarks of the year and our financial performance, we were very pleased with what was, in essence, our first year as a stand-alone public company and the momentum that gave us coming into this year.

David, you're catching us at a very good time we were together as a senior aerospace leadership team in Evendale, just yesterday, as we do every month. Last week, we had our Board together in Dallas for a couple of days. We had a few customers come in. So a really good opportunity to go deep on our commercial engine strategy. And then I think the week before that, we had 275 of our leaders from around the world together in Asheville, North Carolina, where we've got two facilities still dealing with the effects of Hurricane Helene. Good opportunity for us to kick off the year but also spend time with that team.

I think our strategy is very much intact. We often talk about today, tomorrow, and the future, that was the theme through all 3 of those sessions. Talking about today, again, when we think about what we do with our airline customers, in particular, we've got $150 billion of service backlog. So we're going to be busy in support of them for as far as the eye can see. When we talk about tomorrow, it's really everything that we're doing to help our airline customers and our military customers expand and modernize their fleets. Just last year, we had over 4,600 new engine orders add to that backlog. From a new engine perspective, we're going to be busy through the rest of this decade undoubtedly.

But all the while, we need to make sure we're continuing to focus on the future. Especially with respect to the future of flight. The investments that we make today, we talk often about our RISE program, revolutionary innovation for sustainable engines that's what will carry us forward, especially in the narrow-body segment in the 2035, 2040 period.

We probably talk less than we should about future flight from a military perspective. We've had a number of recent news events, which I think are noteworthy. Our T901, the drop in engine to repower the Black Hawks just went through a successful ground test. You may have seen some of the news we put out in that regard. That puts us on a path to a flight test later this year. So that program is moving apace. And at the same time, we put out a release yesterday clearly making progress getting past the detailed design review with our XA102, our next-generation combat engine, which is really part of the NGAP program so we're excited to be moving forward in that regard toward production of a full-scale model.

I think we were together just a month ago with respect to the fourth quarter and full year earnings profile, but also the guide for 2025. We have no news to make relative to the guide for 2025. We continue to believe that we'll see revenue growth up in the low-double-digit range. We should see good flow through from a margin perspective. I think EPS will be up about 15% at the midpoint, somewhere between $5.10 and $5.45. And again, we should see very strong cash conversion. We'll be north of 100% once again in 2025. That should put us somewhere in the $6.3 billion to $6.8 billion range from a free cash view, enabling us to return on top of last year's $6 billion of capital to shareholders, another $8 billion here this year, primarily through the buyback, but also the step-up in the dividend.

Now we clearly need to perform, and that's where FLIGHT DECK, our proprietary lean operating model is so critical to us. I think when we were on a month ago with many of you, we talked about a number of the proof points about how FLIGHT DECK is driving performance at GE Aerospace. Probably one of the most important is the sequential improvement that we saw in inputs from our critical suppliers, who really are pacing us not only with respect to new make more importantly, in the aftermarket, we were up 26% first half to second half. That's the sort of improvement we're looking to continue to drive. In fact, when we were at Asheville a couple of weeks ago, we highlighted not only that example, so we enabled the entire organization to really go to school on that, but also a host of other examples as to how FLIGHT DECK is really helping us drive better results. And I think for me and the rest of the senior team just certainly continuing to transform our culture.

So a lot going on in GE Aerospace. It's going to be another I think a very strong year, we've got a lot of work to do and are excited about the start to 2025, but we know there's a lot in front of us. So Dave, maybe that we'll jump into it.

David Strauss: Yes, you covered a lot of ground there. Thank you. So maybe dig in a little bit more on the supply chain side, more specifics on what you're seeing with Airbus come out today. They talked about good deliveries in the fourth quarter, but Q1 is all not that big of a surprise. What exactly are you seeing in the supply chain? What do you see as kind of still the bottlenecks?

Larry Culp: Yes. Well, I don't think there's anything fundamental than what we talked about a month ago, what we really talked about through the back half. I think we all know the industry tends to finish strong and then start a little more slowly. We don't like that because for us, we want to have real flow. We want to have linearity every day of the week, every week in a month, every month of the quarter, and quarter of the year. We're working on that. But I think in terms of what we're seeing as a function of our FLIGHT DECK engagements we are encouraged with the way they have met us halfway, right, be it an issue, a bottleneck around a machine, a line, a factory enabling us to really bust through those constraints. We don't have that sequential improvement of 26% last year in the back half without that sort of progress. That's really what's going to be critical for us to deliver those numbers I just highlighted a moment ago. I think we're encouraged by what we have seen through the back half. I think we're encouraged by what we're seeing here, though it's early in the first quarter, but there's a lot of work to do.

One thing I should also share with you, some of you, again, apologies if you've heard this, we rolled out a few weeks ago a new internal organization, which we call Technology and Operations. Mohamed Ali, one of our senior leaders, heads that new team, reports directly to me. And what we've done on the back of the '24 experience is really hardwire one team together between supply chain, engineering, quality and a couple of other support functions, where we made the most progress last year with the supply base, we were working in a truly cross-functional, collaborative way, not only inside of our own operation, but with our suppliers. We needed to hardwire that. A lot of that was reporting into me. I can't be at the center of that as much as I might want to, right? So Mohamed and the team, I think, are off to a terrific start. It's going to take a while to yield incremental impact. But from what we've seen thus far, we're really encouraged.

But let's face it, we're in an enviable position. We are supply-constrained as an industry, all the more given what we're doing in the aftermarket and from a new production perspective. We're going to serve the airlines, we're going to serve the airframers this year to the best of our ability. We know from an airframer perspective, they both have inventory to work through, one more so than the other. But at the end of the day, you're not going to see us as the finger-pointers. You're going to see us as the problem-solvers. We don't see a lot of value in this company is short, that company is short. What we really want to do is make sure we're going to gemba, we're going to the places where the real work is performed, identifying constraints, bottlenecks in whatever form and solving them.

David Strauss: You touched on the growth you're expecting for 2025. I wanted to hone in on your EPS guidance. Your EPS guidance is fairly wide, like a 6% range from top to bottom. What do you see as kind of the headwinds, tailwinds, risk opportunities within that guidance range?

Larry Culp: Well, we thought it was narrow, but we appreciate the feedback. I think David, fundamentally, from a guide perspective, be it earnings, be it even cash, it's really going to be a function of where we have the service business fall in and to a lesser degree, perhaps the defense engines output, right? We know demand is there. Again, I don't want to repeat what I said with respect to supply constraints. But if we can work through those a little more effectively, let alone efficiently, we're going to have more volume out the door. Again with the backlog, this is not a demand challenge and that would put us at the high end of the range, if we're unable to do that or we make less progress than we'd like, then we're probably looking at the lower end of that range. Again, principally a commercial services dynamic to a lesser degree within defense with respect to new engines.

David Strauss: OK. I wanted to hit on 2 of the big drivers, not only for '25, but over the next several years. So first of all, on LEAP, the shop visit profile that you see over the next several years, and the margin progression for the LEAP program as a whole over the next several years?

Larry Culp: Yes. Well, there's no question that from an aftermarket perspective, LEAP on top of CFM56 is going to keep us very busy, right? We appreciate you asking. We haven't been particularly good at calling the outlook here because we've undershot the reality with the CFM56 the last couple of years, maybe just to touch on that for a moment. We continue to believe that we've got several years of growth in front of us. We probably don't see it apex until probably the '27, '28-ish time period, and then we'll see a gradual fade with the CFM56. But I think we're still talking about 2,000 shop visits at the end of the decade. So, we'll see if we're right or wrong on that, but that's our current view. And I think our partners at Safran have, in effect, echoed that here recently at their own earnings call.

With respect to LEAP shop visits and LEAP profitability, I think the framework that we've talked about with respect to aftermarket profitability in 2024, program profitability here in '25 and then OE profitability in '26 is intact. So the shop visits are going to grow from a LEAP perspective dramatically from here. It’s why you see us talking so much about investing in the footprint, signing up premier MRO partners to help with offloads, so that we're in a position as those shop visits roll through, especially shop visits one as opposed to the quick turns, we’re in a position to fulfill that and do so efficiently.

David Strauss: Okay. Great. Hitting on the other side of business that people don't talk as much about DPT. So margins kind of bounced around a bit over the higher in the first half of last year, lower in the second half of the year. How do you see margins progressing there? What do you see as normalized margins for DPT?

Larry Culp: Well, I never like to think about normalized margins because once you cap a margin target, guess what, you just capped your margin target and in spirit of Lean and Kaizen, we just keep getting after it. There's no doubt, I think we signaled this a month ago, we'll see a slower start at DPT, particularly in defense. They're working against a tougher comp in '24. But as we go through the course of the year, we think we'll have a stronger second half. We think margins will improve on a segment-wide basis, and we should be, I think, at the midpoint in the 12% range. Respectable, but we can certainly do more. Keep in mind, one of the things that we are doing at DPT, in addition to working through the engine output challenge, is self-funding a number of ours next-generation programs, given some of the uncertainty around the U.S. government. We didn't want to, in any way, slow down the progress that we're making, not only on sixth-generation combat, but with some other things we can't perhaps get into in a setting like this, which we think are really going to undergird the growth potential for DPT and in turn, GE Aerospace over the next decade.

David Strauss: Okay. How you're thinking about the impact of potential tariffs? Obviously, your joint venture with Safran and they're shipping to you and you're shipping to them. And how do you -- I mean, we thought they were going to happen, now they're not, but how are you thinking about the potential impact of tariffs and how you might manage that?

Larry Culp: Well, I think the way we're trying to manage through this is not overreact to any one hour's headlines, right? But to acknowledge what's in place and what could be coming. If we go back a month ago, given what we guided for vis-a-vis 2025, I think by and large, we'll be able to cover anything coming from Canada, Mexico and China, at least in terms of what has been articulated within that guide. So you're not going to see us try to adjust to guide on a weekly basis. That said, we're fortunate to have fundamentally a U.S. footprint. We do have a global sourcing network. But I think that on the margin, we'll be able to deal with the cost pressures not only within our own operational footprint, but where necessary, obviously, we can play the price card as well.

David Strauss: Okay. Cash flow, you touched on it a little bit in your opening comments. You returned well in excess of 100% in 2024. You still have a large cash balance. Cash flow is going to improve from here. Clean this all together, how are you thinking about capital deployment, potential M&A, your thoughts there?

Larry Culp: Yes. Well, I think, again, we knew coming out of a stand-alone company with the balance sheet being fortified given the cash generation potential, capital allocation was going to be a key responsibility for not only the management team, but the Board. And I think any current holders, any future holders would have been delighted with the Board conversation on that topic last week in Dallas. I think our framework, David, really is unchanged. We've said we're going to have a bias, first and foremost, to make sure we protect the organic investments that we make in the business, principally R&D. We're not going to target a fixed ratio at any point in time, but you'll see that R&D as a percent of sales fluctuate in the 6% to 8% range, covering both what we're doing from a commercial perspective and where necessary on defense.

As we go forward, we're clearly going to continue down this path of returning capital to shareholders, again, $6 billion last year, $8 billion this year, in excess of our free cash flow. Now that will be hard to continue into perpetuity, of course, but that will be the bias. But I don't think that in any way crowds out what we might want to do inorganically from an M&A perspective. If you were to handicap the type of situations that we're going to pursue, you'd be safe, I think, to anticipate us doing things that are maybe small to midsize that augment our competitive positions, from a technology view. I'm not sure we're going to do a lot per se in the supply chain. We often get that question right. Should it be forward integrating or vertically integrating more.

Again, with FLIGHT DECK, we can go in and have impact with a lot of our suppliers absent writing an equity check. Have we done that? Will we do some of that? Of course. But I don't think that, that is necessarily a pronounced strategy relative to M&A. But anything that we can do to strengthen our competitive position, our value prop to our customers, we'll do that.

David Strauss: Talk about what you've committed to longer term with Airbus and Boeing in terms of the LEAP ramp up? Your partners put out there this 2,500 engine target, I think, in 2028. What have you committed to in terms of with your customers? What are you facilitized to do at this point?

Larry Culp: Well, I think everybody is working through not only the short and medium term in that regard, David, but the long term. But make no mistake, when I sit with Guillaume and company, we're talking about rate 75, that goal is clear, and we're working our way towards that. Now we've got to take a step here in February of 2025. We've got to make sure we're capitalizing capability, be it in our shops, be it with suppliers, as we think about the next several years in that regard. But in terms of intent, in terms of alignment, there is no daylight there. Obviously, Kelly and the team of Boeing, I know Kelly will be up here in a little bit, are working through a number of different issues, but we are thrilled to be underwing, often exclusively. And we're going to work very hard to deliver whatever they need, be it with the MAX getting to Rate 38 and every rate break from there, right? That's a backlog that we share. Those are customers that we want to jointly serve and we'll be doing everything we can at GE Aerospace to do just that.

David Strauss: So I think you held your Investor Day in March of '24, and you laid out targets for '24, '25 and out to 2028 and you blew through '24, talking mostly about EBIT and everything that kind of flows from there. But well ahead on '24, well ahead on '25. You still have this $10 billion EBIT target out there for 2028. How are you thinking the next couple of years play out? What do you think about the target? Is it fair for us to think that there's at least $1 billion of EBIT upside as we think out to 2028?

Larry Culp: Well, I was going to update the long-term framework to David, but I got out-voted. So I need to stay on the reservation here. There's no question that we got off to a very strong start last year. You talked about EBIT, it's interesting. We do a pretty good job, I think, from a price perspective, keeping the price cost equation in balance. We know we can do a lot better vis-a-vis cost. I think we also know that the supply chain challenges you talk about present themselves with some of the inventory bloat, but we also know in our facilities, we don't get the productivity we could and should and will. When we get better linearity, better flow through a month, through a quarter, through a course of a year. So there's a lot of opportunity there for us to manage that well. '25 will be maybe a little bit ahead of the framework that we laid out a year ago. But we typically will, I think, update the longer-term outlook when we're in some sort of investor meeting. We'll be together with many of you, hopefully, in Paris this summer, that might be an opportunity for us to revisit what we're capable of doing, say, in the '28 time frame.

David Strauss: Got it. I think the one thing that surprised people bid in the results recently is just the level of OE revenue growth relative to kind of the volume and what that might imply for pricing. How is the OE side of the business? I mean you talk about LEAP, but CFM56 by wide body side. How is the OE side of the business going?

Larry Culp: Well, I think the OE side of the business, broadly speaking, Commercial & Defense, even across the various commercial programs, is doing well, save the outputs, right? We didn't ship as many LEAPs last year as we had intended to. We need to make more progress this year, not only with LEAPs, but really across the engine families. As we do that, we clearly get the volume benefit, again I think we'll get some productivity gains as well. And that's just, again, tied back to the work we're doing with the supply base.

David Strauss: Okay. And the margin range on CES for 2025, you forecasted down a little bit strong in the first quarter, and then it seems like it steps down a little bit. Just we touched on the narrow body side. But how is the wide body? I think we talk a lot about the narrow body portfolio, but maybe a little bit less about the wide body portfolio. How is GEnx and GE90 and obviously, what's going on with the 9X kind of contributing to all of that?

Larry Culp: Right. Well, everything factors in no question. But I think we'll be somewhere from a CES op margin perspective in the 25% range. I think that the midpoint is up by $700 million. So we'd much rather work on the dollars. We get paid in dollars, not in percentages. But we know that back to your earlier question around the LEAP aftermarket ramp, while profitable, it's less profitable than some of the other aftermarket business. So we'll be working our way through some of that pressure. But a wide-body view, you hit on the 9X, that really is I think the critical variable for us as we go through this year as we ramp shipments of the 9X engine, which will be the exclusive engine under wing for the 777X we know we will see pressure, right?

And I think we've talked about upwards of several hundred million dollars this year with our volume assumptions. We need to work that hand-to-hand with Boeing. But if that volume plays out in that fashion, we will see that headwind, which is why we, I think, flagged the margin pressure as being more acute in the second half. But there are a lot of things that we have going in our favor which is why those dollars will be up, I think, considerably at the midpoint. And as we go forward, I think the companion question that we often get is. Well, how do we think about the 9X post '25?

That's a little harder to tell, honestly, because again, it will be a function of the ramp rate, our shipments to Boeing, our joint shipments in turn to customers in addition to the work that we do coming down the experience curve to improve the overall cost position. And I mentioned earlier, we're working hard to be better at cost, that's something else I think our technology and operations structure that we recently implemented will help with. So, we've got a volume and a cost dynamic that has a number of potential outcomes, but I think we'll manage it as we think about '26 and beyond.

David Strauss: And the GEnx versus -- speaking of Genx, I think, still ramping in terms of shop visits versus the GE90 kind of leveling the cutdown I mean, that profile as well?

Larry Culp: Well, I mean I'm glad you mentioned it. I should have done so. The GEnx volume here between now and the end of the decade, I think it's going to be up at least 2x, right? And that's an aftermarket stream, maybe not as profitable to see CFM56 on a relative basis but nicely profitable. Since EIS back, I think 2011, we've taken profitability up fourfold. And that's really what we need to do. I mean if you think about GE9X thinking even about LEAP, people can, I think, at times, get anxious about near-term profitability growing that installed base and rerunning that productivity play, in all its forms, through the course of the life cycle, really is the work so many great people who came before us did to help create this franchise and this financial profile. That very much is top of mind for us as we think about all of these new engine platforms that we'll be ramping in the years ahead.

David Strauss: Okay. So with the last minute or two that we have left, can we pull up the audience response questions?

David Strauss: Larry, I appreciate the time today.

Larry Culp: David, thank you. Thanks, everyone.